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Expansive Trademark Doctrines Gain In 3rd Circuit

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The U.S. Court of Appeals for the 3rd Circuit, based in Philadelphia and having jurisdiction over Pennsylvania, New Jersey, Delaware and the U.S. Virgin Islands, long played an important role in the development of federal trademark infringement law, perhaps behind only the Second Circuit in New York in influence. In recent years, with trademark litigation proliferating throughout the country, that influence has waned and 3rd Circuit trademark jurisprudence has seemed increasingly idiosyncratic and in some respects antiquated. Two recent decisions, however, demonstrate that the court may be at least somewhat disposed toward giving new teeth to the rights of trademark owners by expanding the types of "confusion" that will be recognized.

Modern trademark infringement law grew out of the common law of unfair competition, and in particular the tort of "palming off." The gravamen of the wrong, traditionally, was trading on the goodwill of another by causing purchasers of goods or services to wrongly believe that the other is the source of the goods and services. When Congress codified a federal law of unfair competition in the Lanham Act of 1946, the law applied where use of similar trademarks was "likely to cause confusion or mistake or to deceive purchasers as to the source of origin of such goods or services." In 1962, Congress amended the Lanham Act and, among other things, deleted the words "purchasers as to the source of origin of such goods or services." In making this amendment, Congress noted it was doing so to clarify that "the provision actually relates to potential purchasers as well as actual purchasers." For nearly 30 years few cases noted, much less gave significance to, the 1962 amendment.

With the explosion of trademark litigation that followed further amendments to the Lanham Act in 1989, the earlier amendment has been rediscovered and held to support some rather significant extensions of the protections afforded trademark owners. One such extension has been the concept of "initial interest" confusion. In the typical initial interest confusion scenario, a purchaser or potential purchaser is attracted to the putative infringer's goods or services thinking they are the goods or services of the trademark owner, but is disabused of any mistake or confusion before any purchase decision is made.

A variety of rationales have been advanced for recognizing initial interest confusion as actionable. It has been suggested that the infringer misappropriates the trademark owner's good will in order to get the proverbial "foot in the door" or to gain credibility it would otherwise lack, and then benefit by holding on to customers, perhaps by force of inertia. One court considered initial interest confusion a form of "bait and switch." Endorsing all of these rationales, in *Checkpoint Systems, Inc. v. Check Point Software Technologies,* 2001 WL 1250096 (Oct. 19, 2001) the 3rd Circuit stated that trademark protection under the Lanham Act includes "instances in which a mark creates initial interest confusion."

While this statement, taken in isolation, might lead one to conclude that proof of initial interest confusion alone would be sufficient to entitle a trademark owner to injunctive, monetary and other forms of relief available under the Lanham Act, it is evident from the *Checkpoint* decision that the 3rd Circuit did not go so far. Indeed, only a few lines prior to the statement quoted above, the court stated a far more limited holding, *i.e.*, "that initial interest confusion is *probative* of a Lanham Act violation." In other words, the court did not find initial interest confusion directly actionable, but instead held only that it is relevant to the extent it tends to prove a likelihood that more traditional "point of sale" Lanham Act confusion will occur.

Like the other circuit courts of appeal, the 3rd Circuit has adopted a multifaceted test for likelihood of confusion:

> (1) [The] degree of similarity between the owner's mark and the alleged infringing mark;
> (2) The strength of the owner's mark;
> (3) The price of the goods and other factors indicative of the care and attention expected of consumers when making a purchase;
> (4) The length of time the defendant has used the mark without evidence of actual confusion;
> (5) The intent of the defendant in adopting the mark;
> (6) The evidence of actual confusion;
> (7) Whether the goods, though not competing, are marketed through the same channels of trade and advertised through the same media;
> (8) The extent to which the targets of the parties' sales efforts are the same;
> (9) The relationship of the goods in the minds of consumers because of the similarity of functions; and
> (10) Other facts suggesting that the consuming public might expect the prior owner to manufacture a product in the defendant's market or that he is likely to expand into that market.

Interpace Corp. v. Lapp, Inc., 721 F.2d 460, 463 (3d Cir. 1983).

Evidence of actual confusion is thus only one factor, and because it is widely recognized that such evidence is hard to come by, its absence does not weigh heavily against the trademark owner. As a result, evidence of actual confusion becomes most critical in cases where the other *Lapp* factors point away from a finding of likelihood of confusion.

In *Checkpoint*, the 3rd Circuit considered the evidence of initial interest confusion as part of its analysis of *Lapp* factor 6, actual confusion. By that point, however, the trademark owner's fate was sealed. The court had already found that the other *Lapp* factors, except for similarity of the mark, all favored the putative infringer. Evidence of actual initial interest confusion, the court found, could not sway the result:

> Checkpoint System's and Check Point Software's products are unrelated and are sold in different markets to consumers who exercise a heightened degree of care in making purchasing decisions. The markets for the parties' products are not converging, nor is there evidence the Check Point Software intentionally adopted the Check Point mark to create confusion. Given these factors, the District Court did not clearly err in finding likelihood of confusion.

Thus, while recognizing the concepts of initial interest confusion and the harm it can cause trademark owners, the 3rd Circuit found it neither directly actionable nor of much probative value in precisely those cases where a trademark owner would most need to rely upon it.

In *Checkpoint*, the 3rd Circuit went on to briefly consider yet another form of confusion, "investor" confusion. Several district courts within the 3rd Circuit have held that evidence that investors and potential investors were confused by similar company names is probative of likelihood of confusion. The 3rd Circuit reserved decision on the issue because the evidence of investor confusion before it was "scant." The court observed, however, that "[a]rguably, the 1962 amendments to the Lanham Act extended actionable confusion beyond purchasers to other instances affecting a party's business or goodwill. Investor confusion may well threaten a party's business or goodwill if it would likely deter or inhibit a company's ability to attract investors and raise capital." Again, the court's dicta suggests that in an appropriate case it may not only recognize investor confusion as probative of likely point-of-sale confusion, but may actually hold it to be a form of actionable confusion taken alone.

While the *Checkpoint* case, upon examination, at most incrementally expands trademark protections in the 3rd Circuit, it may be a harbinger of more significant changes to come as appropriate cases arise. This is illustrated by the gradual development of the concept of "reverse confusion" in the 3rd Circuit. Unlike the traditional trademark case, where a "junior user" attempts to appropriate the goodwill of a trademark owner with prior rights, in the reverse confusion situation "a larger more powerful company uses the trademark of a smaller, less powerful senior user and thereby causes confusion as to the source of the senior user's goods or services." The smaller senior user loses control over its mark, and may indeed even come to be seen by the public as the infringer as the more powerful junior user "swamps" the public's perception of the mark.

As long ago as 1994, in *Fisons Horticulture, Inc. v. Vigro Indus. Inc.*, 30 F.3d 466 (3d Cir. 1994), the 3rd Circuit adopted the reverse confusion theory, but it has had little vitality until a more recent decision in *A&H Sportswear v. Victoria's Secret Stores*, 237 F.3d 198 (3d Cir. 2000), a case that involved a trademark infringement claim by A&H Sportswear, maker of MIRACLESUIT swimwear, against Victoria's Secret over its use of the MIRACLE BRA trademark on swimwear. The trial court had declined to consider A&H's reverse confusion claim, relying on the 3rd Circuit's opinion in *Fisons*, including the above-quoted passage, to impose a threshold "economic disparity" requirement. That is, because it found that A&H was not itself "entirely without market power" in the swimwear market, and that Victoria's Secret's advertising and publicity of MIRACLE BRA swimwear was not grossly disportionate to A&H's own marketing, the trial court declined to even consider whether a likelihood of reverse confusion existed.

On appeal, the 3rd Circuit conceded that "the quoted statements are understandably confusing, and the method of applying the doctrine of reverse confusion is evidentially still developing." Nonetheless, the court made clear that *Fisons* created no threshold economic disparity test, holding that it was but one factor (essentially going to the commercial strength of the market) to be considered among the many others set forth in *Lapp*. The court also analyzed the limited extent to which application of the *Lapp* factors differed in reverse confusion cases. In *A&H*, this clarification proved outcome determinative; on remand the trial court did indeed find a likelihood of reverse confusion. *A&H Sportswear Co. v. Victoria's Secret Stores*, 2001 WL 1172690 (E.D. Pa. Aug. 17, 2001).

The 3rd Circuit has throughout its history been respectful of precedent and inclined to rule on the narrowest grounds possible. A long period of gestation, like that required before a robust reverse confusion doctrine emerged in the 3rd Circuit, may also be needed before initial interest confusion and other expansive theories fully take hold.

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